

BURLINGTON RESOURCES OIL & GAS CO.
AMOCO PRODUCTION CO.

IBLA 96-565 & 97-158

Decided August 31, 1999

Consolidated appeals from decisions of the Deputy State Director, Division of Resource Planning, Use and Protection, New Mexico State Office, Bureau of Land Management, upholding orders requiring operator to conform communitization and unit agreement participating area to dependent resurveys. NM SDR 96-019 & NM SDR 97-05.

Reversed.

1. Oil and Gas Leases: Communitization Agreements--Oil and Gas Leases: Unit and Cooperative Agreements--
Surveys of Public Lands: Dependent Resurveys

Both a communitization agreement allocating production from oil and gas leases committed thereto and a participating area of a unit agreement allocating production among oil and gas lessees of lands found to be productive in paying quantities are contracts between the respective lessees. The boundaries of the leased tracts and the acreage committed to such agreements are defined by the approved public-land survey in effect at the time of discovery and the effective date of the communitization agreement or participating area. A decision requiring the operator to alter the description of the tracts committed to a communitization agreement or a participating area and to adjust the acreage of such tracts to conform to a subsequent resurvey will be reversed when this would impair the rights of the contracting parties to oil and gas produced.

APPEARANCES: Charles L. Kaiser, Esq., and Charles A. Breer, Esq., Denver, Colorado, and Robert G. Leo, Jr., Esq., Amoco Production Company, Denver, Colorado, for appellants; Laura Lindley, Esq., Denver, Colorado, for Amicus Curiae Rocky Mountain Oil & Gas Association; W. Thomas Kellahin, Esq., Santa Fe, New Mexico, for Amicus Curiae New Mexico Oil & Gas Association; Grant L. Vaughn, Esq., Office of the Field Solicitor, U.S. Department of the Interior, Santa Fe, New Mexico, for the Bureau of Land Management.

OPINION BY ADMINISTRATIVE JUDGE GRANT

The Burlington Resources Oil and Gas Company (formerly Meridian Oil Inc.) has appealed from an August 15, 1996, decision of the Deputy State Director, Division of Resource Planning, Use and Protection, New Mexico State Office, Bureau of Land Management (BLM), on State Director Review (SDR) (No. 96-019), upholding two orders of the Farmington District Office, New Mexico, BLM, requiring Burlington to submit new Exhibit B's for Communitization Agreement (CA) Nos. NMNM-73214 and NMNM-73367 in response to a 1969 dependent resurvey of Federally-leased land committed to the agreements. The Amoco Production Company (Amoco) has appealed from a December 10, 1996, decision of the Deputy State Director on SDR (No. 97-05) upholding an order of the District Office requiring Amoco to submit a new Exhibit B for Unit Agreement No. NMNM-78391X for the Dakota Participating Area (PA) in the Gallegos Canyon Unit (Unit) as a consequence of four dependent resurveys, completed between 1953 and 1985, of Federally-leased land committed to the agreement. 1/

The communitization agreements and the unit agreement at issue here were approved by the U.S. Geological Survey (USGS) effective June 1, 1953 (No. NMNM-73214 (formerly 14-08-001-1085)); January 14, 1955 (No. NMNM-73367 (formerly 14-08-001-2418)); and July 25, 1951 (No. NMNM-78391X (formerly 844)). 2/

1/ We note that, while the Deputy State Director's December 1996 Decision upheld the District Office order requiring the submission of new Exhibit B's with respect to five PA's in the Unit (Dakota and Gallup "A" through "D"), we have since been informed by BLM that only the Dakota PA had been affected by the dependent resurveys. (Memorandum to Board from Rick Wymer, Geologist, Division of Resource Planning, Use and Protection, New Mexico, BLM, dated Mar. 26, 1999, at 2.)

2/ At the time of their approval, the two CA's each encompassed 320 acres of public domain land, one situated in the E½ sec. 10 (No. NMNM-73214) and the other in the N½ sec. 11 (No. NMNM-73367); both are located in T. 30 N., R. 10 W., New Mexico Principal Meridian, San Juan County, New Mexico. Such land was leased pursuant to Federal noncompetitive oil and gas lease Nos. NMNM-607, NMNM-3202, and NMSF-78125 (CA No. NMNM-73214), and NMNM-607 and NMNM-3195 (CA No. NMNM-73367). The CA's applied to all dry gas and liquid hydrocarbons producible from the Mesaverde Formation underlying the communitized lands. At the time of approval of the Unit Agreement, it encompassed 5,280.51 acres of public domain land situated in T. 29 N., R. 12 W., New Mexico Principal Meridian, San Juan County, New Mexico (as well as other Federal, Indian, State, and private lands). Such land was leased pursuant to Federal noncompetitive oil and gas lease Nos. NMNM-3401, NMNM-3526, NMNM-6237, NMSF-78109, NMSF-78209B, NMSF-78209D, NMSF-78303, NMSF-78370, NMSF-79907, NMSF-80491, NMSF-80600, NMSF-80647, NMSF-80723, and NMSF-80962. The Unit Agreement applied to all oil and gas producible from any formation underlying the unitized lands.

Each of the CA's provided that the oil and gas produced from the Mesaverde Formation underlying the communitized area "shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed [to the agreement]." (CA No. NMNM-73214 at 3; CA No. NMNM-73367 at 2.) The description by legal subdivision according to the rectangular system of public-land surveys and the acreage contained therein of the various tracts of leased land committed to each of the CA's was set forth in the body of agreement No. NMNM-73214 and in "Exhibit A" attached to agreement No. NMNM-73367. Burlington is now the designated operator of the CA's.

The Unit Agreement provided for the subsequent creation of PA's, each of which would be composed of all of the unitized lands, described by legal subdivision of the public-land surveys, then regarded as reasonably proved to be productive of unitized substances in paying quantities. (Unit Agreement at 9.) These lands were to be described in a "schedule," approved by USGS, which would "set forth the percentage of unitized substances to be allocated * * * to each unitized tract in the participating area so established" and would "govern the allocation of production from and after the date the participating area becomes effective." Id. The Unit Agreement also provided that:

All unitized substances produced * * * shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the said participating area.

Id. at 10-11. Thereafter, the Dakota PA was created effective February 6, 1959. The description by legal subdivision according to the rectangular system of public-land surveys and the acreage of the various tracts of leased land committed to the Unit Agreement and within the PA was set forth in an "Exhibit B" attached to the agreement. Amoco is now the designated operator of the Unit.

Thus, the record discloses that the communitization and unit PA agreements at issue here allocate the value of oil and gas produced and sold from the Federal, Indian, State, and private lands committed to the agreements among the various holders of leases subject to the agreements according to the percentage of total committed acreage held by each lessee. Hence, any change in the acreage of leased lands committed to the CA's or the PA would change the relative allocation of proceeds among the lessees.

Following creation of the communitization and unit agreements, BLM, on June 17, 1969, accepted a dependent resurvey of the subdivisional lines of T. 30 N., R. 10 W., New Mexico Principal Meridian, San Juan County, New Mexico, including the exterior and subdivisional lines of secs. 10 and 11, which contain Federal lands committed to CA Nos. NMNM-73214 and NMNM-73367. The effect of the 1969 resurvey was

to change the legal description of the Federally-leased land committed to CA No. NMNM-73214 from the E½ sec. 10 to Lots 1, 2, 7-10, 15, and 16 of sec. 10 and of the Federally-leased land committed to CA No. NMNM-73367 from the N½ sec. 11 to Lots 1-8 of sec. 11, all in T. 30 N., R. 10 W., New Mexico Principal Meridian, San Juan County, New Mexico. Similarly, on March 26, 1953, March 19, 1975, March 28, 1980, and June 28, 1985, BLM accepted four dependent resurveys of the subdivisional lines of T. 29 N., R. 12 W., New Mexico Principal Meridian, San Juan County, New Mexico, including the exterior and subdivisional lines of secs. 17-22, 26-29, 31, and 33-35, which contain Federal lands committed to Unit Agreement No. NMNM-78391X within the Dakota PA. The effect of the four dependent resurveys was also to change the legal description of the Federally-leased land committed to the Unit Agreement within the Dakota PA in T. 29 N., R. 12 W., New Mexico Principal Meridian, San Juan County, New Mexico.

Following the dependent resurveys, BLM conformed the legal descriptions of the leased lands in the several Federal leases at issue here to the resurveys. That is now required by 43 C.F.R. § 3110.5-2(d)(2) (formerly 43 C.F.R. § 3111.2-1(d)(2) (1983)), which provides: "The description of lands in an existing lease shall be conformed to a subsequent resurvey * * *."

However, USGS, which administered communitization and unit agreements on behalf of the Department prior to redelegation of this responsibility to BLM, took no action to conform the communitized and unitized lands at issue here to the dependent resurveys. Nor did BLM, which assumed responsibility for such administrative matters on December 3, 1982 (48 Fed. Reg. 8983 (Mar. 2, 1983)), take any action to conform the communitized and unitized lands to the resurveys prior to the decisions appealed herein. Thus, production continued to be allocated under the agreements in accordance with the acreage reported in the original surveys. (Affidavit of Alan Alexander, dated July 30, 1996 (Ex. 12 attached to Statement of Reasons for Appeal (SOR)), at 1-2.)

It was not until 1996 (in the case of the CA's) and 1995 (in the case of the Unit Agreement), 27 years and from 42 to 10 years after the applicable resurveys, respectively, that BLM took notice, during the process of attempting to set up a computerized land and natural resources management database, that the legal descriptions and acreage of the tracts of Federally-leased land committed to the CA's and the PA did not match the resurveys.

In order to address situations where Federally-leased land committed to a communitization or unit agreement was subsequently dependently resurveyed by BLM, resulting in a change in the legal description and acreage of that land, but the Department had taken no action to conform the agreement to the resurvey for many years thereafter, the Deputy State Director issued New Mexico Instruction Memorandum (NM IM) No. 95-42 on March 30, 1995. He provided therein that the "unit/CA operator" was to be notified, in writing, that a dependent resurvey had taken place and to be required to revise "allocation schedule(s) affected by the resurvey [so as to conform them to

the resurvey], " effective the first day of the month following notification. (NM IM No. 95-42 at 2 (emphasis added.)) He further stated that, thereafter, the operator "must correct production and royalty reports to conform to the revised allocation schedule(s)." Id.

In orders dated March 27 and 29, 1996, the District Office, in accordance with NM IM No. 95-42, required Burlington to submit new Exhibit B's for its two CA's by May 1, 1996, since the 1969 dependent resurvey of secs. 10 and 11, T. 30 N., R. 10 W., New Mexico Principal Meridian, San Juan County, New Mexico, had resulted in changes in the legal descriptions and acreages of the Federally-leased lands which were committed to the agreements, from 320 acres to 313.52 acres (No. NMNM-73214) and 313.10 acres (No. NMNM-73367). The revised Exhibit B's were to be effective April 1, 1996, the first day of the month following the March 1996 orders notifying Burlington of the resurvey. The District Office also required Burlington to "[r]edo [the] allocation factors of all tracts" committed to the CA's.

In the case of the Unit Agreement, the District Office had originally sought and obtained from BHP Petroleum (Americas) Inc. (BHP), then a designated operator with respect to the Pictured Cliffs PA, a new Exhibit B with respect to the entire unit, since the four dependent resurveys of T. 29 N., R. 12 W., New Mexico Principal Meridian, San Juan County, New Mexico, had resulted in a change in the legal description and acreage of the Federally-leased land which is committed to the agreement. That exhibit for the Unit was approved by BLM, by letter dated August 9, 1995, effective May 1, 1995 (as agreed by BLM and BHP). In the same letter, the District Office further required both Amoco and BHP to submit new Exhibit B's for the PA's of the Unit of which they were the designated operators. The Exhibit B's would also be effective May 1, 1995. By order dated September 27, 1996, BLM required that the new Exhibit B for the Dakota PA be submitted by December 2, 1996.

Burlington and Amoco promptly sought SDR, pursuant to 43 C.F.R. § 3185.1, of the District Office orders requiring them to submit new Exhibit B's.

In his August and December 1996 decisions, the Deputy State Director upheld the District Office orders requiring the submission of new Exhibit B's for the CA's and the PA in conformance with the dependent resurveys. With respect to the August 1996 decision regarding the CA's, BLM rejected the contention that conforming Exhibit B to the resurvey impaired the "bona fide rights" of the parties to the CA's in violation of the statutory proviso that no resurvey shall impair the bona fide rights of any claimant affected by such resurvey, 43 U.S.C. § 772 (1994), on the ground that the United States holds title to the lands and the other parties merely hold working interests as lessees and/or operators. While acknowledging that more than 25 years had passed between the resurvey and the BLM order, BLM asserted that USGS may not have been aware of the resurvey, noting that BLM had conformed relevant oil and gas lease descriptions in 1969. Further, BLM denied that the orders were arbitrary or capricious

or represented a change from existing policy. 3/ Additionally, the BLM decision asserted that the dependent resurvey did not move the lease lines or alter the acreage in the leases, but rather reestablished the original survey lines in their "true original positions." (Decision of August 15, 1996, at 3.) Further, BLM noted that the decision was not made retroactive to the date of approval of the resurveys, but rather was made effective only prospectively upon notice to the operators. The December 1996 decision regarding the unit PA was supported on a similar basis. In addition, the latter decision noted that the unit agreement contains provisions for revising the unit area and a PA whenever changes render such revision necessary and asserted that such changes include a dependent resurvey such as those involved in the present case.

Burlington and Amoco appealed from the Deputy State Director's August and December 1996 decisions. The appeals were docketed as IBLA No. 96-565 (Burlington) and IBLA No. 97-158 (Amoco). By order dated May 2, 1997, we granted Amoco's motion to consolidate the two appeals for resolution by the Board.

The Rocky Mountain Oil & Gas Association and the New Mexico Oil & Gas Association, region-wide and state-wide associations of oil and gas exploration, development, and production companies, have requested the opportunity to appear as amicus curiae on behalf of appellants and submitted joint original and reply briefs in support of the appeals. We hereby grant their request, pursuant to 43 C.F.R. § 4.3(c), to appear amici curiae.

Appellants contend that the effect of the resurveys is to physically move lease lines in relation to both geologically-based features such as oil and gas wells in place at the time of the resurvey and the original location of the lease. (SOR at 3-4.) By example, appellants point out that one of the communitized leases, NM-0607, is moved approximately 550 feet further from the producing well. *Id.* at 4. Thus, appellants note that the acreage within the leases, communitized areas, PA's, and units changes. *Id.* Appellants point out that the BLM decisions issued in 1969, at the time of resurvey, modifying the land description and acreage for the leases to conform with the resurvey did not provide that the resurvey would be used to alter existing bona fide rights in leases, communitization agreements, units, or PA's. *Id.* at 5; Ex. 11. For lands communitized or unitized after approval of the resurveys, appellants assert that the resurvey acreage has been relied upon to calculate ownership of interests. *Id.* at 6. Further, appellants contend that oil and gas leases constitute interests in real property and that these interests constitute bona fide rights in the public lands which are protected by statute from

3/ While it may be that BLM had no prior policy with respect to application of resurveys to existing PA's and CA's formed pursuant to prior approved public-land surveys, this may in part be the result of the fact that BLM had no responsibility for administering CA's and PA's prior to the Departmental reorganization of 1982. 48 Fed. Reg. 8983 (Mar. 2, 1983).

impairment as a consequence of a resurvey. 43 U.S.C. § 772 (1994). (SOR at 10, 14.) Appellants argue that once a producing well is drilled, the value of the lease is determined by calculating the value of recoverable hydrocarbons and this may be affected by moving the lease lines in relation to the geological features and the survey plat which were recognized by the Department prior to the resurvey. (SOR at 11.) Similarly, appellants point out that the allocation factors for a share of production in communitized areas and PA's in unit agreements are impaired when, as in this case, the resurvey moves the lease lines, alters the acreage, and causes some lessees to receive smaller allocations. Id. at 11-12.

Appellants assert that the BLM decisions constitute a new policy because for many years the Department administered leases, communitized areas, and PA's according to the survey in effect when they were established, thus protecting the bona fide rights of the parties. It is contended that the BLM decisions are arbitrary and capricious in that they give no good reason for deviating from this policy. Id. at 16-19.

The amici curiae brief also asserts that the Department has followed a policy for more than 30 years regarding resurveyed lands in New Mexico of relying on the approved survey in effect to calculate allocation factors regarding PA's or communitized areas formed prior to the time of the resurvey. (Amici Brief at 2.) Amici contend that the NM IM forces operators to alter unit PA's and communitized areas to conform to the acreage as resurveyed regardless of when the resurvey was approved or whether the resurvey is characterized as dependent or independent. Id. at 3-4. It is asserted that this policy will have a very widespread and significant adverse impact as a large number of townships have been resurveyed in the San Juan Basin of New Mexico, "a prolific oil and gas producing area." Id. at 4. Amici note that:

Operators will be compelled to, among other things, recalculate interest ownership in units and communitized areas; amend operating and unit agreements and division orders to reflect new ownership allocations; calculate new payout factors for carried interest owners; and recalculate and make payments prospectively, and perhaps retroactively, in keeping with the new allocations.

Id. at 5. Additionally, litigation is anticipated as the parties sort out their rights in the leases and produced oil and gas. Id.

Iterating appellants' contention that the resurveys have the effect of moving lease boundaries relative to geologic features in existence prior to the resurvey, amici emphasize that one of the communitized leases in the Burlington appeal has moved as much as 550 feet farther from an oil and gas well drilled more than a decade before the resurvey. Id. at 7; see SOR, Ex. 9. Amici assert that this is the kind of impact which this Board has consciously sought to avoid. Max A. Krey, (IBLA 82-356, Nov. 16, 1982),

vacating on reconsideration, 65 IBLA 192 (1982) (Board vacated its prior decision affirming BLM decision modifying description of lands under oil and gas lease to conform to resurvey and remanded to allow BLM to amend description to embrace lands originally within lease boundary). Further, amici contend that the impact of the BLM decision will be especially problematic in PA's and communitized areas containing fee or State lands because a resurvey cannot alter the rights of private parties, citing Cragin v. Powell, 128 U.S. 691 (1888). (Amici Brief at 9.) Additionally, amici point out that the model form of the unit agreement found in the regulations provides that the acreage of both Federal and non-Federal lands shall be based upon "the last approved public-land survey as of the effective date of each initial participating area." 43 C.F.R. § 3186.1, Para. 11.

Counsel for BLM has filed a brief in response to the amici brief. It is asserted by BLM that there was no prior BLM policy regarding resurveyed lands and that "BLM has routinely modified leases whenever resurveys have occurred. (BLM Response at 1.) Further, BLM contends that the NM IM providing for prospective application of resurveys to PA's and communitized areas was designed to amend a longstanding policy of always modifying Federal lease acreage after a resurvey to provide relief from retroactive application of revised acreage to leases on lands resurveyed many years ago. Id. at 1-2. It is conceded by BLM that the share of the owners of interests will change as the acreage changes in the resurvey. Id. at 3. Additionally, BLM argues that "it is illogical to ignore changing agreements, when the very building blocks of the agreements, the leases, had been changed to conform to a new survey." Id. Finally, BLM argues that "it is in the interest of all concerned parties to have these agreements adhere to the most recent surveys" and that applying the resurveys from the first day of the month following notice by BLM to the parties was a reasonable compromise to avoid the difficulties raised by retroactive application. Id. at 4.

[1] It appears from the record in this case that the effect of the dependent resurveys has been to move the oil and gas lease boundaries, as defined by the approved public-land survey existing at the time of discovery of wells capable of production in paying quantities, in relation to geologic features including structures and producing wells on the ground. As BLM recognizes on appeal, the result is that the acreage of the leases committed to the PA and CA's is amended and the participation by lessees in production is altered. It has been recognized by the Department that unit agreements and CA's are contracts between the private parties thereto, subject to Departmental approval. Orvin Froholm, 132 IBLA 301, 305 (1995); Home! Stake Royalty Corp., 130 IBLA 36, 38 (1994); Shannon Oil Co., 62 I.D. 252, 255 (1955); see 30 U.S.C. § 226(m) (1994); 43 C.F.R. §§ 3105.2-3 (CA), 3183.4 (unit agreement), 3183.5 (PA). Although it was noted by BLM that the dependent resurvey constitutes a reestablishment of the actual location of the subdivisional lines and the lease boundaries on the ground, and, hence, did not alter the actual location of the leased lands on the

ground, ^{4/} the PA and the CA's are contractual agreements between the respective lessees whose leases are committed thereto which serve to allocate production in accordance with the lease lines and resulting lease acreage as set forth in those agreements based on the approved public-land survey existing at the time the areas were created and approved. Such approved contracts are not subject to unilateral alteration by decision of BLM. In this regard, we note that despite the fact that BLM made its decision effective prospectively from the date of notice of the resurvey, the lessees would apparently have a contractual right to their proper share of the proceeds of production based on the lessee's share of the acreage in the PA or CA from the date of first production and, as appellants assert, litigation would likely ensue if the BLM decisions altering the terms of the contracts were upheld.

Our holding is also dictated by provisions of the regulations promulgated by BLM itself when it provided in the model form of the unit agreement that:

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO [authorized officer], the Unit Operator shall submit for approval by the AO, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area.

43 C.F.R. § 3186.1 (Model form of unit agreement.) This form of the model unit agreement including sec. 11 tying the description of the PA and acreage of tracts within the PA to the public-land survey in effect as of the effective date of the initial PA was promulgated in the regulations by BLM in 1983 when they assumed the responsibility formerly held by USGS for administering unit agreements. 48 Fed. Reg. 26766 (June 10, 1983).

^{4/} A dependent resurvey has been described as a retracement and reestablishment of the lines of the original survey in their true original positions according to the best available evidence of the positions of the original corners. In legal contemplation and in fact, the lands contained in a certain section of the original survey and the lands contained in the corresponding section of the dependent resurvey are identical. Manual of Instructions for the Survey of the Public Lands of the United States (1973), § 6-4 at 145; John W. Yeargan, 126 IBLA 361, 362-63 (1993).

Prior forms of the model unit agreement did not explicitly refer to the approved public-land survey at the effective date of the initial PA, but suggested this result in providing that the schedule of participation shall be based on subdivisions of the public-land survey deemed reasonably proved to productive in paying quantities, shall set forth the percentage of unitized substances to be allocated to each unitized tract in the PA, and shall govern the allocation of production "from and after the date the [PA] becomes effective." 30 C.F.R. § 226.12 (1949) (Model form of unit agreement at § 10.) Although the unit agreement in this case was executed in 1951 and did not contain the quoted language from the 1983 model unit agreement, it did provide that participation after discovery shall "be based on subdivisions of the public-land survey or aliquot parts thereof." (Unit Agreement at § 10.) We find the quoted provision of the model unit agreement instructive regarding the proper construction of sec. 10 of the Unit Agreement.

We acknowledge that our holding in this case is contrary to both the NM IM and a recently promulgated provision of the BLM Manual Handbook 3101-1 (Rel. 3-308 (Feb. 2, 1996)), at p. 16, § I.J. These internal documents provided for the guidance of BLM employees are not promulgated in accordance with statutory procedures for rulemaking including publication in the Federal Register and opportunity for public comment. Accordingly, these provisions are properly distinguished from regulations promulgated pursuant to rulemaking provisions of the Administrative Procedure Act, 5 U.S.C. § 553 (1994), and, unlike regulations, do not have the force and effect of law and, thus, are not binding upon the Board. See Mobil Producing Texas & New Mexico, Inc., 115 IBLA 164 (1990). We cannot uphold their application in a case such as this where the effect would be to impair the contractual rights of the lessees and uphold a result contrary to that dictated by the regulations regarding unit agreements.

Accordingly, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 C.F.R. § 4.1, the decisions appealed from are reversed.

C. Randall Grant, Jr.
Administrative Judge

I concur:

Will A. Irwin
Administrative Judge